

Report of the auditor-general to Limpopo provincial legislature and the council of Greater Tzaneen Municipality

Report on the audit of the Consolidated financial statements

Qualified Opinion

1. I have audited the financial statements of the Greater Tzaneen Municipality and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2018, consolidated and separate the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes consolidated and separate to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of my report the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen Municipality and group as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African standard of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act of South Africa (Act No.1 of 2015) (DORA)

Basis for Qualified Opinion

Government grants and subsidies

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for Revenue from non exchange transaction relating to Government grants & subsidies. As described in note 34 to the consolidated financial statements., the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to Accumulated Surplus amounting to R1 709 548 091 was necessary and the consequential impact on unspent conditional grants and receipts.

Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 60 to the consolidated financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Uncertainty relating to the future outcome of exceptional litigation

9. With reference to note 39 to the consolidated financial statements, the municipality is the defendant in a number of claims. The municipality is opposing the claims. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses – electricity

10. As disclosed in note 50 to the financial statements, material electricity losses of R 108 946 468 (2016-2017: R99 452 443) was incurred, which represents 22.01% (2016-2017: 21.92%) of total electricity purchased.

Other matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

12. The supplementary information set out on pages 101 to 120 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. The disclosure requirements did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with GRAP and the requirements of the MFMA and DORA, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern, disclosing, as

applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

| Objectives | Pages in annual performance report |
|-------------------------|---|
| KPA 2: Service Delivery | 19 – 47 |

| Objectives | Pages in annual performance report |
|------------------------|------------------------------------|
| | |
| KPA 3: Economic Growth | 10 – 17 |

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

KPA 2: Service Delivery

Performance indicators were not well-defined, targets were not specific, and measurable

Various Indicators

23. The source information and method of calculation for the achieving the planned indicator was not clearly defined.

- Indicator: Provision of Capital Tools (Customer and Retail Services)
- Indicator: Provision of Capital Tools (Operations and Maintenance)

Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete

Various indicators

24. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

| Performance indicator | Reported achievement | Audited value |
|--|----------------------|---------------|
| # of households with access to electricity | 565 | 569 |
| # of households with access to sanitation (GTM service area) | 14484 | 14545 |
| # of households with access to water (GTM service area) | 14480 | 14568 |

| | | |
|--|------|----|
| Electrification of 541 households in Xihoko/ Radoo/ Thapana/ Mavele Phase2 | 100% | 0% |
|--|------|----|

Various indicators

25. The Municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below.

| Performance indicator | Reported achievement | Audited Value |
|---|----------------------|---------------|
| % households earning less than R1 100 with access to free basic waste removal (total registered as indigents) | 100% | 0% |
| Indicator: % of households earning less than R1100 served with free basic electricity (total registered as indigents) | 7% | 0% |
| Renewal, Repairs and Maintenance on pre-paid meters (Tzaneen, Letsitele & Politsi) | 100% | 0% |
| % of households with access to electricity | 99% | 0% |

KPA 3: Economic Growth.

Performance indicators were not well-defined

Various indicators

26. The source information and method of calculation for achieving the planned indicator was not clearly defined.

- Library Project Support at Khwekhwe High School
- Tzaneen Dam Resort Facilitation
- Coordination of Entrepreneurs to the Nkowankowa Industrial Park

Multiple material misstatements

Various indicators

I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine

whether any adjustments were required to the reported achievements. In addition, these indicators did not relate to the strategic objective, which they aimed to achieve.

| Indicator description | Key Performance Area | Reported achievement |
|---|----------------------|----------------------|
| Tzaneen Dam Resort Facilitation | Economic Growth | 91% |
| Library Project support at Khwekhwe High School | Economic Growth | 91% |

Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete

Indicator # of jobs created through municipal EPWP initiatives (FTE)

27. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

| Performance indicator | Reported achievement | Audited value |
|--|----------------------|---------------|
| # of jobs created through municipal EPWP initiatives (FTE) | 986 | 842 |

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

Adjustment of material misstatements

30. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA: Service Delivery and KPA: Economic Growth. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

34. Material misstatements of revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

37. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

38. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

Expenditure Management

39. Money owed by the municipality was not always paid within 30 days an agreed period, as required by section 65(2)(e) of the MFMA.

40. Reasonable steps were not taken to prevent unauthorised expenditure to the amount of R111 909 266 as disclosed in note 43, as required by section 62(1)(d) of the MFMA.

41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 551 489, as disclosed in note 44 to the annual financial statements, in contravention of

section 62(1)(d) / 95(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by payments relating to legal fees.

Human Resource Management

42. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67 (1) (d) of the MSA.

Utilisation of grant

43. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated, as required by section 12(5) of the DoRA.

Other information

44. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
45. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
46. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

48. The accounting officer did not exercise sufficient oversight responsibility regarding financial and performance reporting and compliance and related internal controls which resulted in misstatements being identified.
49. The annual financial statements and annual performance report contained numerous misstatements mainly due to a lack of financial monitoring and review
50. The accounting officer did adequately not review and monitor compliance with applicable legislation

Auditor - General

Polokwane

19 December 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence